MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

2007 ANNUAL REPORT

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 5, 2008

To His Honour
The Honourable Gordon Barnhart
Lieutenant Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2007, in accordance with **The Municipal Financing Corporation Act.** The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Sir,

Your obedient servant,

Rod Gantefoer
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Rod Gantefoer
Chairperson

Honourable Bill Hutchinson

OFFICERS

Mr. Rae Haverstock
General Manager

Mr. Jim Fallows
Treasurer

Ms. Marsha Loraas
Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2007

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2007, the Corporation participated in the financing of seven projects by purchasing $7.1 million of debentures. Five of the debentures financed sewer and water projects, one pertained to the renovation of a community centre, and one involved a land purchase.

The Corporation's debenture holdings at December 31, 2007 totaled $36.1 million, up $4.3 million from the total at December 31, 2006.

The Corporation recorded net earnings of $897,000 in 2007, which was unchanged from 2006. The $897,000 surplus was virtually identical to the $900,000 amount budgeted (see note 9 to the financial statements).

For 2008, the Corporation expects net earnings to be similar to the amount recorded in 2007.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred $25,000 of administrative expenses in 2007. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2007, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31

	2007	2006
	(thousands of dollars)	
Amount of debentures offered to the Corporation	$ 7,665	$ 10,763
Prior year's purchase commitments carried forward	390	0
Total purchase commitments for the year	8,055	10,763
Purchases completed	7,090	10,373
Purchase commitments outstanding at the year end	$ 965	$ 390

DEBENTURES PURCHASED IN 2007

Town of Dalmeny	140
Village of Shell Lake	250
Town of Macklin	1,000
Town of Watrous	1,400
Town of Kamsack	3,900
Village of Craven	100
Town of Midale	300
	7,090

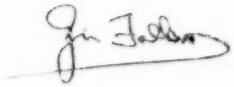
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Dudley and Company LLP, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.



Rae Haverstock
General Manager

Jim Fallows, CA
Treasurer

March 5, 2008

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2007 and the statements of earnings and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Dudley + Company LLP

Regina, Canada
January 28, 2008

Dudley and Company LLP
Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	2007	2006
	(thousands of dollars)	
ASSETS		
Current assets		
Due from General Revenue Fund (Note 3)	$ 105	$ 5
Interest receivable	969	916
Municipal debentures receivable within one year	3,180	2,798
Short term Investment	1,935	0
	6,189	3,719
Investments in municipal debentures (Note 4)	32,946	29,048
Deferred financing charges	75	86
	$ 39,210	$ 32,853
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities		
Interest payable and accrued liabilities	$ 351	$ 291
Debt payable within one year (Note 6)	0	3,308
	351	3,599
Long term debt payable (Note 6)	25,767	17,059
Province of Saskatchewan's Equity		
Reinvested earnings	13,092	12,195
	$ 39,210	$ 32,853

See accompanying notes to the financial statements

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF EARNINGS AND REINVESTED EARNINGS

For the Year Ended December 31

	2007	2006
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	$ 1,996	$ 1,656
Investment income - short term investments, sinking funds and cash balances	61	49
	2,057	1,705
Expenses		
Interest on debt	1,135	783
Administration	25	25
	1,160	808
Net Earnings	897	897
Reinvested earnings, beginning of year	12,195	11,298
Reinvested earnings, end of year	$ 13,092	$ 12,195

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	2007	2006
	(thousands of dollars)	
Operating Activities		
Interest received from municipal debentures	$ 1,889	$ 1,480
Interest received from short term investments	54	26
Interest paid on debt	(1,043)	(492)
Payments to suppliers	(25)	(25)
Cash provided by operating activities	875	989
Investing Activities		
Purchase of municipal debentures	(7,090)	(10,373)
Proceeds from maturing municipal debentures	2,876	2,251
Cash used in investing activities	(4,214)	(8,122)
Financing Activities		
Issuance of long term debt	8,900	7,330
Repayment of long term debt	(173)	(100)
Repayment of short term debt	(3,353)	(145)
Cash provided by financing activities	5,374	7,085
Net increase (decrease) in cash equivalents during the year	2,035	(48)
Cash equivalents, beginning of year	5	53
Cash equivalents, end of year	$ 2,040	$ 5
Represented by:		
Due from the General Revenue Fund	105	5
Short term investments	1,935	0
	$ 2,040	$ 5

(See accompanying notes)

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with Canadian generally accepted accounting principles.

Financial Instruments

Effective January 1, 2007, the Corporation prospectively adopted CICA Handbook section 3855 – Financial Instruments: Recognition and Measurement and CICA Handbook section 3861 – Financial Instruments: Disclosure and Presentation. In accordance with section 3855, the Corporation has implemented the following classifications:

- Short term investments are classified as "financial assets held for trading," so they are marked to market through net income at each period end. For the Corporation, the measured amount generally approximates the cost.
- Due from the General Revenue Fund and Interest receivable are classified as "loans and receivables." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amounts generally approximate their cost.
- Municipal debentures receivable within one year and investments in municipal debentures are classified as "held to maturity investments." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Interest payable and accrued liabilities, debt payable within one year and long term debt payable are classified as "other financial liabilities." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Sinking funds are classified as "financial assets held for trading," so they are marked to market through net income at each period end. Sinking fund assets are netted against long term debt payable because the Corporation has a legally enforceable right to set off the amounts and intends to realize the asset and settle the liability simultaneously.

Comprehensive Income

Effective January 1, 2007, the Corporation prospectively adopted CICA Handbook section 1530 – Comprehensive Income. The Corporation does not have any comprehensive income and accordingly, it has not presented statements of other comprehensive income and accumulated other comprehensive income.

Deferred Financing Charges

Deferred financing charges relate to long term debt payable and are amortized over the term of the related debt.

Future Accounting Changes

Effective January 1, 2008, the Corporation will be adopting CICA Handbook section 3862 – Financial Instruments: Disclosures and CICA Handbook section 3863 – Financial Instruments: Presentation. These sections replace CICA Handbook section 3861 – Financial Instruments: Disclosure and Presentation, revising and enhancing its disclosure requirements about the nature, extent and management of risks arising from financial instruments, while carrying forward unchanged its presentation requirements.

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Corporation's average daily bank account balance.

4. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by cities, towns, villages, rural municipalities and school divisions throughout the Province of Saskatchewan. All debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

The Corporation has an investment in 82 (2006 - 79) debentures issued by 60 (2006 - 57) issuers with a weighted average yield of 5.63% (2006 – 5.85%) and maturity dates ranging from 2008 through 2027.

The carrying amount invested by issuer category is as follows:

	2007	2006
	(thousands of dollars)	
Cities	$ 8,514	$ 9,112
Rural Municipalities	97	116
Towns	16,201	11,046
Villages	3,474	3,490
School Divisions	7,840	8,082
	36,126	31,846
Receivable within one year	3,180	2,798
	$ 32,946	$ 29,048

The fair value of these debentures is $37.9 million (2006 - $34.2 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. No debentures were redeemed during 2006 or 2007.

5. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions are as follows:

	2007	2006
	(thousands of dollars)	
Interest on debt	$ 1,135	$ 783
Administration	20	20

Other amounts due from and to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

6. Debt

Maturity Date	Rate (%)	2007	2006
		(thousands of dollars)	
General Revenue Fund (GRF)			
June 17, 2013	4.75	$ 5,000	$ 5,000
December 3, 2015	4.25	5,000	5,000
April 10, 2017	4.41	2,800	0
June 10, 2022	4.81	3,900	0
August 8, 2026	4.86	7,330	7,330
April 10, 2027	4.60	2,200	0
		26,230	17,330
Less: sinking fund balance		(463)	(271)
Long term debt		$ 25,767	$ 17,059

The fair value of long term debt is $26.3 million (2006 - $17.7 million). This amount is determined by discounting the debentures' future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement. The sinking fund balance is reported at its fair value.

a) sinking funds

Under conditions attached to the debentures, the Corporation is required to pay annually into sinking funds administered by the Saskatchewan Ministry of Finance a minimum of one per cent of the original principal.

b) principal repayments and sinking fund installments

Principal payments and sinking fund installments for the next five years are as follows (in thousands of dollars):

2008	-	$ 262
2009	-	262
2010	-	262
2011	-	262
2012	-	262

c) short term debt

The Corporation sometimes borrows funds on a short term basis from the GRF. At December 31, 2007, no amount (2006 - $3,308 thousand) was due to the GRF.

7. Risk Management

The activities of the Corporation result in exposure to two types of risk:

i) Interest Rate Risk

Interest rate risk is risk that the value of the Corporation's assets and liabilities will fluctuate due to changes in market interest rates. This risk exists because the maturity dates of the Corporation's assets and liabilities are not precisely matched:

Year of Maturity	Financial Assets	Financial Liabilities	Difference 2007	Difference 2006
		(thousands of dollars)		
2007	$ -	$ -	$ -	$ 120
2008	6,189	351	5,838	-
1 - 5 years	11,779	0	11,779	10,398
Thereafter	21,242	25,767	(4,525)	1,677
	$ 39,210	$ 26,118	$ 13,092	$ 12,195

The Corporation manages this risk by matching the maturity dates of material assets and liabilities to the extent possible.

ii) Liquidity Risk

Liquidity risk is the risk that financial obligations will not be met over the short-term due to lack of access to capital. This risk is managed by distributing debt maturities over many years, maintaining sinking funds on long-term debt issues and maintaining adequate cash reserves and an $80 million short-term line of credit with the General Revenue Fund.

The effective interest rates on the Corporation's assets and liabilities are as follows:

Investments in municipal debentures	5.63%
Long term debt	4.69%

8. Commitments

Prior to December 31, 2007, the Corporation had approved the purchase of debentures from certain local governments of which $965 thousand were not purchased before year-end.

9. Operations Budget

	Budget 2007
	(thousands of dollars)
Revenue	
Investment income - municipal debentures	$ 1,900
Investment income - short term investments, sinking funds and cash balances	25
	1,925
Expenses	
Interest on debt	1,000
Administration	25
	1,025
Net earnings	$ 900